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Weekly Political & Economic Outlook

Report prepared by Ana-Maria Anghel & Emilian Aignătoaei



This Week at a Glance

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This Week at a Glance

Political and Institutional Uncertainty Persists: Government deadlock, a controversial CCR ruling affecting Dominic Fritz, and 428 municipalities still outside Ghişeu.ro ahead of the legal deadline highlight continued political tensions and administrative implementation gaps.

Regional Security Risks Rise as EU Pushes for Greater Competitiveness: New Russian airspace incursion over Romania and Moldova is prompting stronger regional security cooperation, while ECB President Christine Lagarde is urging deeper EU market and capital-market integration to boost investment, innovation and competitiveness.

Fragile Rebalancing Underway: Inflation and economic contraction are easing while tax collection and EU-funded investment improve, but high debt, weak FDI, external imbalances and political uncertainty continue to constrain demand, fiscal flexibility and investor confidence.

NRRP Absorption Improves, but Reform and Fiscal Risks Persist: Romania has submitted its €2.84 billion fifth NRRP payment request, raising grant absorption to 78%, while delays in the public-sector pay reform and over 4,500 projects awaiting final acceptance keep pressure on the government to secure remaining EU funds and contain fiscal costs.

Political Landscape

Domestic Political Dynamics

Political Impasse Keeps Fiscal Policy in Focus.

PNL leaders are increasingly **rejecting a return of PSD to government**, arguing that the next Cabinet **must preserve the fiscal consolidation and spending discipline** associated with Ilie Bolojan's tenure. Bolojan has warned that Romania has only a limited window to continue reducing deficits and implement key reforms, while stressing that maintaining fiscal stability is essential to protecting the country's investment-grade prospects. The ongoing political uncertainty therefore keeps the formation of a credible, full-term government and the continuation of fiscal reforms as key priorities for investors and businesses.

CCR Decision Deepens Political and Rule-of-Law Tensions.

Romania's Constitutional Court (CCR) has upheld the so-called "**Fritz amendment**" to the **integrity law**, potentially **ending Dominic Fritz's mandate as Timișoara mayor** within 30 days after the publication of the law in the Official Gazette. However, CCR rejected provisions requiring financial interest declarations from officials and their partners. The ruling has intensified political tensions, with USR and Fritz arguing that **the decision creates a dangerous precedent for retroactive sanctions and political interference**, while PNL leaders have also raised concerns over the **broader implications for the rule of law**. In response, USR's Political Committee unanimously **reconfirmed its support for Fritz as party leader**, with all 151 members present voting in his favour, signalling that the party intends to remain fully mobilised around the issue.

Even so, no less than **120 dignitaries and public office professionals will lose their jobs because of this amendment**, according to ANI data. The decision also creates practical risks for Romania's EU commitments and credibility. Parliament must revise the legislation in line with the CCR ruling and ensure it enters into force by 31 August to meet the relevant PNRR milestone. Ilie Bolojan warned that **prolonged political disputes or perceived institutional interference could increase the risk of CEDO litigation**, weaken investor confidence and ultimately put EU funding at risk.

Ghișeul.ro Deadline Approaches with 428 Municipalities Still Unenrolled.

With just four days remaining until the **25 August legal deadline**, **428 Romanian municipalities are still not enrolled in the national Ghișeul.ro** online payments platform, despite significant progress in recent weeks. Interim Deputy Prime Minister **Oana Gheorghiu** said the number has fallen from 919 three weeks ago, with 491 municipalities completing the mandatory enrolment, but described the remaining gap as **"insufficient"** and **urged mayors to**

complete the process immediately. Gheorghiu stressed that digitalization should reduce bureaucracy, queues and unnecessary trips to local authorities while improving transparency and access to public services. The issue is also financially relevant for local administrations: she previously warned that municipalities failing to comply with the legal requirement risk **suspension of certain state-budget transfers**, including income-tax shares and balancing funds.

***Impact:** The combination of prolonged political uncertainty, renewed rule-of-law tensions and delays in administrative digitalization reinforces the perception of a less predictable operating environment in Romania. For businesses and investors, uncertainty over the next government and fiscal policy may delay investment and hiring decisions, while the Ghișeul.ro delays highlight persistent administrative capacity gaps, potentially increasing compliance costs.*

International & Geopolitical Affairs

Russian Airspace Incursion Raises Regional Security Concerns.

After Russia again violated the airspace of Romania and Moldova, Ukraine's Foreign Minister Andrii Sybiha said that **Romania, Moldova and Ukraine will seek a stronger regional response**, including **measures to protect critical infrastructure and strengthen security cooperation**. The issue is expected to be discussed at the upcoming **Odesa Triangle Summit**. The incident adds to growing security risks on NATO's Eastern Flank and reinforces pressure for stronger air-defence capabilities and regional preparedness.

Lagarde Calls for a New EU Growth Model.

European Central Bank (ECB) President **Christine Lagarde** called on the **EU to build a new growth model based on a more integrated Single Market**. She argued that Europe's traditional advantages, such as open trade, relatively cheap energy and a stable global security environment, are being eroded by geopolitical tensions, trade restrictions and stronger competition from China. She warned that high energy costs, fragmented markets and limited access to capital are holding back European companies, investment and technology adoption, particularly in AI. For the business environment, Lagarde stressed that reducing national barriers and integrating capital markets would allow companies to scale across Europe, attract more investment, accelerate innovation and improve productivity, while strengthening the EU's economic resilience and long-term competitiveness.

***Impact:** The combination of heightened regional security risks and weaker European competitiveness pressures creates a challenging external environment for Romanian businesses. Increased security concerns on NATO's Eastern Flank could raise costs and uncertainty for energy, logistics and investment, while Lagarde's warnings on high energy prices, fragmented markets and limited access to capital highlight structural constraints affecting Romanian*

companies as well. At the same time, deeper EU market and capital-market integration could create longer-term opportunities for Romanian firms to scale, attract investment and adopt new technologies.

Economic & Fiscal Outlook

Business Environment Developments

Inflation Is Easing, but Energy Costs Delay Household Relief.

Romania's **annual harmonised inflation fell from 9.2% in June to 8.2% in July**, but remained the **highest in the EU** and well above the 3% EU average. Domestic data show particularly strong price growth in services, at 13.67%, while non-food goods rose by 7.93% and food by 5.03%. **The National Bank expects inflation to move towards 6%**, potentially allowing discussions on lower interest rates toward year-end and creating scope for monetary easing in 2027; however, energy remains the principal source of pressure, while weaker consumption is also contributing to disinflation. Overall, slower price growth should gradually ease pressure on purchasing power, but persistent energy and service costs will delay a broad-based recovery in household demand.

Investment-Led Stabilisation Faces Weak Growth and External Imbalances.

GDP stagnated quarter-on-quarter in Q2 and contracted by 0.4% annually, while **the economy shrank by 0.8% in the first half of 2026**; nevertheless, EU-funded investment rose by 56%, from RON 27.2 billion to RON 42.5 billion, supporting construction and infrastructure activity. From Finance Minister Alexandru Nazare's perspective, the moderation of the contraction, accelerating EU-funded investment, an improved contribution from net exports and declining inflation represent **early signs of economic rebalancing**, although sustainable growth will require shifting from deficit-driven consumption towards investment, productivity and external competitiveness. **Further small contractions remain possible in Q3 and Q4**, amid weak industrial output, a frozen property market and reduced purchasing power. At the same time, the current-account deficit widened to EUR 14.2 billion, foreign direct investment fell from EUR 3.72 billion to EUR 669 million, and external debt increased by EUR 4.3 billion in the first semester. Taken together, public and EU-funded investment is cushioning the downturn, but declining private capital inflows weaken external financing and expose Romania to greater debt dependence.

Political Stability Becomes Central to Investment and Euro Convergence.

Twenty business, employer, trade-union, academic and civil-society organisations **called for a fully functional government, a predictable fiscal framework and concrete measures to protect investment, employment and living standards**, proposing direct talks with President Nicușor Dan in early September. These concerns are reinforced by the sharp decline in FDI, which the BNR linked partly to **lower profitability and dividend distributions**, while warning that **uncertain policy signals may cause investors to postpone decisions**.

Interim Minister Dragoş Pîslaru identified **2032 as a possible euro-adoption target**, conditional on restoring fiscal indicators by 2030, establishing a coherent development plan and maintaining political stability. Thus, euro adoption provides a potential strategic anchor, but its credibility depends on near-term fiscal consolidation and a more predictable environment for private investment.

***Impact:** Companies face an uneven operating environment: disinflation and stronger tax collection offer some macroeconomic relief, while EU-funded investment continues to support infrastructure-related activity. However, weak domestic demand, high energy and service costs, the contraction risk and the steep fall in FDI may constrain revenues and delay private investment. Public debt above 60% of GDP also limits the Government's capacity to expand wage, social or business-support expenditure. Greater fiscal and political predictability would help restore investor confidence and advance euro convergence, whereas prolonged uncertainty could deepen reliance on debt-financed external flows and weaken the investment-led recovery.*

Recovery & Resilience Plan

New Payment Request Advances Absorption and Supports Investment.

Romania submitted NRRP payment request no. 5, worth EUR 2.84 billion and covering 75 milestones and targets, of which EUR 1.65 billion represents grants and EUR 433 million loans. The penultimate request raises **grant absorption to 78%**, up from 47% a year earlier, while preserving Romania's EUR 13.57 billion grant allocation. Despite progress on payment request no. 5, **Romania can still collect EUR 7.57 billion from the NRRP**, while **more than 4,500 projects remained awaiting final acceptance**.

This leaves the administration facing simultaneous pressure to complete investments, process payments and secure compliance with the remaining milestones. Fiscal Council President Daniel Dăianu warned that losing these funds would affect both projects already underway and the national budget, which was built partly around expected European inflows. He also criticised the late handling of the unified public-sector pay law, arguing that the reform lacked timely political consensus and should not reach the European Commission while domestic disagreements remain unresolved.

Public Pay Reform Moves Closer to Adoption, but Fiscal Concerns Persist.

Romania is moving closer to adopting the **unified public-sector pay law**, with the latest draft bill setting a **RON 4,000 reference salary from December 2026** and introducing changes to pay coefficients and allowances across education, healthcare, and administration (political sources). We remind you that the reform is a **PNRR milestone**, with adoption by **31 August needed to secure around EUR 770 million in EU funds**. Following European Commission requests for clarifications, particularly on the budgetary impact, political parties are expected to continue negotiations next week. For the business community, concerns are increasing as the estimated annual cost has reportedly risen to **RON 10–12 billion**, raising fears that further fiscal consolidation

could ultimately put additional pressure on the private sector. **Business representatives are instead calling for spending efficiencies and structural reforms**, while the government has ruled out tax increases to offset the higher wage bill.

***Impact:** These developments provide a mixed outlook for the business environment. Higher NRRP absorption and the release of EU funds should support public investment, project pipelines and demand in sectors linked to infrastructure and modernization. However, failure to meet remaining PNRR milestones could reduce available EU funding, while a higher public wage bill could increase pressure for future fiscal consolidation. For businesses, this reinforces the importance of monitoring public investment opportunities, government spending and the direction of future fiscal measures, particularly given limited room for further tax increases.*